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Tax News

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Many of the so-called tax advantages available under the 1954 Revenue Code (at least from early interpretations) have subsequently been proved by regulation to work to the taxpayer's disadvantage. Unfortunately, accountants have been forced to apply the new code provisions to their clients' tax problems without benefit of regulations or Revenue Rulings on specific situations which are of an unusual nature.

One of the tax reliefs provided by the 1954 Revenue Code is to preclude double taxation on the gain arising from the sale of corporate assets during the course of liquidation. Under the 1939 Code, if a corporation sold assets at a gain and then liquidated, the gain was taxable to the corporation and then again to the stockholders. Under the 1954 Code, only the stockholders are taxed on the gain regardless of whether the assets are sold by the corporation before liquidation or by the stockholders after receiving the assets in liquidation. This relief from double taxation is only available if the assets are sold within 12 months after adoption of a plan of complete liquidation and liquidation is completed within this 12 month period. Of course the corporation is still taxed on its sales of inventory unless sold in bulk and on certain installment obligations.

During a twelve month period all may not progress as planned. The taxpayer may be faced with unusual occurrences which place him in a position where the new code provision loses its beneficial nature. Three new Revenue Rulings apply the provision to specific situations which could arise during a period of liquidation.

Of these new rulings, one works to the taxpayer's disadvantage, one is neutral and the third preserves the tax relief provided under this 1954 Code Provision Sec. 337.

(1) If during the 12-month period of liquidation one of the corporation's buildings is destroyed by fire and the insurance recovery is in excess of the basis, according to the Revenue Ruling, the corporation realizes a taxable gain as well as the stockholder upon receipt of the proceeds in liquidation. The Revenue Ruling takes the position that the transaction is not a "sale or exchange" and does not come within the province of Sec. 337 which applies only to sales or exchanges.

(2) Another Revenue Ruling says that Sec. 337 does not apply to assets sold in a bankruptcy liquidation, provided the stockholders receive no dividends. Sec. 337 contemplates some distribution to stockholders. If none is made the stockholders pay no tax and if Sec. 337 applied the corporation would pay no tax either, a result not intended under this section.

(3) Another Revenue Ruling discusses the relationship between the benefits under Sec. 337 and Sec. 172, dealing with the carry-back of operating losses. Suppose Sec. 337 provides relief to the corporation on the gain realized in the sale of assets. In the same year, if the corporation has an operating loss will its carry-back benefits be lost by absorption by the gain? This Revenue Ruling says "no"—the gain will be taxed to the stockholders, the carryback will be available for use by the corporation.

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(Continued from page 11)

are not financially desirable. One product on which the profit in relation to sales may be 10% may require so much investment in facilities and assets that the return on investment may be only 8%, while another product which only indicates 6% on sales provides a 15% return on investment. This is a fine tool of accounting management which has assisted progressive companies to stabilize, diversify and expand.

It is, therefore, apparent that accounting provides methods and means of controlling the intricate and complicated operations of modern business whether large, medium or small. The techniques of accounting provide the tools of measurements of progress which have made it possible to organize in our free enterprise system the cooperative business units which have brought us to our present high levels of property and production.

Measurement of business progress, accounting and cost control techniques as applied to operations, dollar services, and the traditional accurate record keeping and publishing of periodic statements—these are the important elements of the role of accounting in modern management.